

Sanitized Copy Approved for Release 2009/12/23 : CIA-RDP87M00539R002303720008-4

STAT

**Page Denied**

Sanitized Copy Approved for Release 2009/12/23 : CIA-RDP87M00539R002303720008-4

STAT

Central Intelligence Agency  
Washington, D.C. 20505

26 November 1985

Executive Director

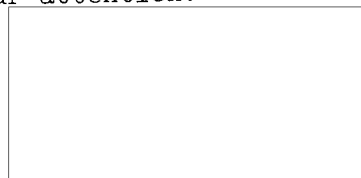
Executive Registry

85- 1810/3

NOTE FOR: D/OIT



I think lots of people got a copy  
of this, but I don't believe anybody  
brought it to your attention.



STAT

1-289

**EXECUTIVE SECRETARIAT**  
ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR		X		
4	D/ICS		X=		
5	DDI				
6	DDA		X		
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt		X		
13	D/OLL				
14	D/PAO				
15	D/PERS				
16	VC/NIC				
17	D/FINANCE		X		
18	ER				
19					
20					
21					
22					

SUSPENSE \_\_\_\_\_  
Date \_\_\_\_\_

Remarks

Executive Secretary  
22 Nov 85

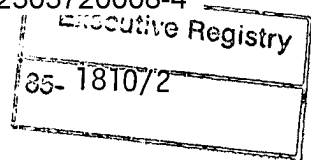
Date

3637 (10-81)

STAT



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503



NOV 15 1985

M-86-2

## MEMORANDUM FOR HEADS OF DEPARTMENTS AND AGENCIES

FROM: Joseph R. Wright, Jr.  
Deputy Director

SUBJECT: Financial Systems

In conjunction with our review of agency plans submitted under Circular A-127, "Financial Management Systems," we have become aware of a number of innovative approaches agencies are taking to modernize and streamline their systems.

One of the most promising is the use of off-the-shelf software in combination with existing hardware. This approach has permitted some agencies to put in systems in a matter of months, without incurring high costs or disruption of operations. While packaged systems may not be able to meet all requirements for department-wide standardization and integration, they may provide the basic building blocks needed.

We would like to bring the accomplishments of the following agencies to your attention:

- The FBI installed key elements of a financial system in 18 months using commercial software with little modification, for less than \$500,000.
- The Agricultural Stabilization and Conservation Service implemented a core financial system, featuring an integrated budget preparation module, in eight months at a cost of under \$400,000.
- The Maritime Administration and Treasury's Financial Management Service both put in the same financial system developed in another Federal agency in a matter of months, with similarly low costs.
- Both the District of Columbia Government and the Consumer Product Safety Commission have installed the core functions of a personnel system in weeks at a cost under \$100,000.

These findings show that modern financial management need not rely exclusively on customized, expensive systems that are built from scratch. In addition to the examples cited above, we are certain there are other packaged systems that agencies are currently using or considering. We urge you to explore the use of these systems as an alternative to multi-million dollar custom development efforts, and to bring any additional successes in this area to our attention.

**EXECUTIVE SECRETARIAT**  
ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI		X (Trans & Cover Only)		
6	DDA		X (W/Attachment)		
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt		X (W/Attachment)		
13	D/OLL				
14	D/PAO				
15	VC/NIC				
16	D/Finance		X (W/Attachment)		
17	DER				
18					
19					
20					
21					
22					
SUSPENSE		Date _____			

Remarks

STAT

Executive Secretary

29 M-y 85

Date

3637 (10-81)



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

Executive Registry

85- 1810 / 1

M-85-16

May 20, 1985

MEMORANDUM FOR THE HEADS OF DEPARTMENTS AND AGENCIES

FROM: DAVID A. STOCKMAN  
DIRECTOR

SUBJECT: Guidelines for Evaluating Financial  
Management/Accounting Systems

This is a further follow-up to Circular A-127, "Financial Management Systems." The Circular sets forth policies and procedures for developing, operating, evaluating, and reporting on financial management systems. It requires each agency to establish and maintain a single, integrated financial management system that meets a series of basic objectives. Additional details of the objectives were spelled out in "Financial Management and Accounting Objectives" that was sent to you in March 1985.

The attached booklet, "Guidelines for Evaluating Financial Management/Accounting Systems," outlines a recommended approach to evaluating systems and preparing two required reports. The first is the five-year systems plan called for in the Circular which is to be included with the FY 1987 budget and management submission. The other is the annual report on accounting systems required by the Federal Managers Financial Integrity Act, P. L. 97-255.

Attachment

DCI  
EXEC  
REG

L-289



# **GUIDELINES FOR EVALUATING FINANCIAL MANAGEMENT/ ACCOUNTING SYSTEMS**

**MAY  
1985**

**Executive Office of the President  
Office of Management and Budget**

---

# **GUIDELINES FOR EVALUATING FINANCIAL MANAGEMENT/ ACCOUNTING SYSTEMS**

**MAY  
1985**

**Executive Office of the President.  
Office of Management and Budget**



GUIDELINES FOR EVALUATING  
FINANCIAL MANAGEMENT/ACCOUNTING SYSTEMS

TABLE OF CONTENTS

<u>CHAPTER</u>		<u>PAGE</u>
I	INTRODUCTION	I-1
	Financial System Objectives	1
	Basic Approach	4
II	ORGANIZING THE EVALUATION	II-1
	Assignment of Responsibilities	1
	Selections and Supervision of Personnel	2
	Documentation	3
	Monitoring the Process	4
	Scheduling Evaluations	4
III	ESTABLISHING THE INVENTORY	III-1
	Definitions	1
	Developing the Inventory	2
	Inventory Matrix	2
	Inventory Documentation	4
IV	UNDERSTANDING THE SYSTEM	IV-1
	Overview of the	1
	Agency-wide System	
	Detailed Understanding of	2
	Systems	
V	EVALUATING THE SYSTEM	V-1
	Making the System Review	1
	Documentation and Responsibilities	3
	Summary Reports	3
VI	USING THE EVALUATION RESULTS	VI-1
	Accumulation of Evaluation Data	1
	Financial Management System Plan	1
	Section 4 FMFIA Reporting	2

EXHIBITS

1. Overview of the Financial Management System Evaluation, Improvement, and Reporting Process
2. Inventory Matrix

GLOSSARY

APPENDICES

- A. Sample Overview Flow Chart
- B. Sample Second Level Flow Chart
- C. Sample Assurance Letter from Designated Senior Official
- D. Sample Report of Assurance from the Component System Manager
- E. Sample Assurance Letter from the Inspector General
- F. Format for Financial Management System Plan
- G. Sample Accounting System Letter
- H. Guidance on Testing Systems

## FOREWORD

The Federal Government is committed to improving the quality and effectiveness of its financial management systems. It is moving toward systems that are modern, efficient, effective, and compatible; that contain necessary internal controls; that support the preparation and execution of the budget; that enable financial resources to be managed effectively; and that provide financial information needed by managers, the Congress, and the public. OMB Circular A-127, "Financial Management Systems," sets forth financial management policy and objectives. A supporting document, Financial Management and Accounting Objectives expands upon the objectives and summarizes existing guidance on Federal financial systems. The Circular requires that systems be reviewed annually for conformance with those objectives.

This document contains guidelines for agencies to use in planning, organizing, making, and reporting on reviews of financial systems. The guidelines are based on the experience gained by agencies in the first two years of implementation of the Federal Managers Financial Integrity Act. The reviews are expected to identify departures from the objectives in Circular A-127; develop a system improvement plan; and provide the year-end report on the status of accounting systems required by Section 4 of the Federal Managers Financial Integrity Act.

## CHAPTER I

### INTRODUCTION

Federal agencies are required to maintain an integrated financial system to meet certain objectives, including:

- o Support for the formulation and execution of the budget.
- o Support for management and control of programs, funds, and other resources.
- o Full disclosure of information necessary to enable executive branch officials, the Congress, and the public to evaluate the control of Government activities.

This document provides guidelines for the annual review of financial management systems required by Circular A-127, and for preparing the agency financial management improvement plan. It also provides guidance for preparing the annual report to the President and the Congress on accounting systems required by Section 4 of the Federal Managers Financial Integrity Act, P.L. 97-255, (FMFIA).

These guidelines outline a process for agency management to use in evaluating their systems. Many of the features are the same as those in OMB's Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government and an earlier draft of this guideline which was used by a number of agencies for initial implementation of the Financial Integrity Act.

### FINANCIAL SYSTEM OBJECTIVES

The financial system objectives set forth in Circular A-127 are summarized below. The detailed descriptions of these objectives, in Financial Management and Accounting Objectives, are to be used in making the required evaluations.

- o Systems operations -- the agency financial management system shall use the best of acceptably priced, contemporary technology -- including automated data entry and edit, data management, data base dictionaries, electronic communications between systems, flexible reporting formats, controlled access to data bases by personal computers, and other means -- to achieve the following objectives.

- Usefulness -- financial management data shall be gathered and processed only where necessary to meet specific internal management needs or external requirements. Reports shall be tailored to specific internal management needs or external requirements. Reports shall be tailored to specific user needs and if report usage does not justify cost, reports shall be terminated.
- Timeliness -- financial management data shall be recorded as soon as practicable after the occurrence of the event, and relevant preliminary data shall be made available to managers by the fifth working day following the end of the reporting period. Other standards of timeliness may be established where the agency has inventoried reports and set specific standards, with user participation. Final, corrected data shall be available in time to meet external reporting requirements.
- Reliability and completeness -- financial management information shall be reasonably complete and accurate, shall be verifiable and ordinarily be drawn from the official records and systems, and shall be no more detailed than necessary to meet the needs of management and external requirements.
- Comparability and consistency -- financial management data shall be recorded and reported in the same manner throughout the agency, using uniform definitions. Accounting shall be synchronized with budgeting. Consistency over time shall be maintained. New and revised systems shall adopt common, existing definitions and classifications.
- Efficiency and economy -- the agency financial management system shall be designed and operated with reasonable total costs and transaction costs. Financial systems which are excessively costly shall be identified and phased out. This shall be accomplished through installation of effective systems of planning and evaluation, sharing of data, elimination of overlap and duplication, and use of the best contemporary technology, including commercially available packages with proven success in other agencies or the private sector.
- o Systems integrity -- the agency financial management system shall feature reasonable controls designed, operated, and evaluated in accordance with OMB Circulars A-123, "Internal Control Systems," and A-71, "Responsibilities for the Administration and Management of Automatic Data Processing Facilities."

- o Support for budgets -- financial management data shall be recorded, stored, and reported to facilitate budget preparation, analysis, and execution. Data shall be classified uniformly and that classification, at a minimum, shall be at a level of detail that directly supports execution of enacted budgets and formulation of proposed budgets, without excessive aggregation or disaggregation.

Presidential and Congressional decisions shall be recorded precisely and financial management data on results shall be classified to track such decisions. This includes detailed support for reports to OMB under Circular A-34, "Budget Execution," as required by OMB, and for routine budget submission materials under Circular A-11, "Preparation and Submission of Budget Estimates." Data required for budget and management decisionmaking on unit costs and performance shall be included in the system.

- o Support for management -- data shall be recorded and reported in a manner to facilitate carrying out the responsibilities of both program and administrative managers. The agency financial management system shall provide a coherent, timely, and accurate financial management data base. It should be supplemented as necessary to meet agency management and Executive Office requirements for administrative data, such as the Financial and Administrative Management Information System. Accrual accounting information shall be developed only as needed for pricing purposes, comparative cost analyses, and to meet the needs of management or the Congress.
- o Full financial disclosure -- financial management data shall be recorded, and reported as specifically required by OMB or Treasury, to provide for full financial disclosure and accountability in accordance with appropriate budget and accounting principles and standards. Financial disclosure requirements are met through the Budget, the Treasury Combined Statement, and related documents. Agencies contribute to this disclosure through required reports to OMB, Treasury, and the Congress and through proper recording and classifying of financial data. Any other financial statements intended for use by the public shall be submitted to OMB for review and approval, and shall be evaluated on the basis of costs and benefits and for consistency with the Budget.

BASIC APPROACH

A review of the financial management/accounting systems can be approached in a number of ways. In most instances, however, a structured approach consisting of a series of well-defined steps, should be used. The recommended approach is comprised of five phases:

- o Organizing the evaluation.
- o Establishing the inventory.
- o Understanding the system.
- o Evaluating the system.
- o Using the evaluation results.

Each phase is summarized below and discussed in greater detail in separate chapters of these guidelines.

- o Organizing the evaluation. This includes determining the manner in which the evaluation will be made; assigning responsibilities to appropriate officials; providing proper training and supervision; documenting system operations and reviews; scheduling and tracking the reviews and the status of improvement actions; and monitoring the overall process. (See Chapter II.)
- o Establishing the inventory. Agencies are expected to establish and maintain a single, integrated financial management system. These may be made of various components and sub-systems. Each of these system elements must be identified so that it can be evaluated. The inventory should include each existing and proposed financial system, component, and sub-system (both automated and manual) included in the overall financial management system. The inventory listing, and the name and title of the manager for each system, should be maintained on a current basis. A copy of the updated inventory listing of financial systems, together with any revisions to the agency's directive are to be sent to OMB annually. (See Chapter III.)
- o Understanding the system. This phase is to obtain a general understanding of how an agency's overall financial management system operates. It includes the development of information concerning the purpose and use of the various component systems and sub-systems making up the overall system, their relationship to each other, and how they function.

If not already available, this information should be developed based on interviews with knowledgeable officials, examination of system documentation, and observation of operating activities. It provides useful details of system operation and helps managers understand the overall system and evaluate its elements. (See Chapter IV.)

- o Evaluating the system. Two types of evaluation must be made. The first is an assessment of the agency's overall financial management system to determine whether the policies and objectives set forth in Circular A-127 are being met. This type of evaluation is required annually. The other type is a detailed evaluation of individual system components and sub-systems that includes testing of the requirements applicable to each objective. This may be made on a cyclical basis, but not less frequently than once every three years.

The annual assessment is management's self-evaluation of its financial system. As such, it is to be based on all available knowledge of the system -- the strengths as well as weaknesses -- plus the results of prior evaluations, and recent reports of Inspectors General, the General Accounting Office, and others.

The aim of this assessment is to determine whether there is reasonable, not absolute, assurance that the financial systems conform with the policies and objectives of Circular A-127.

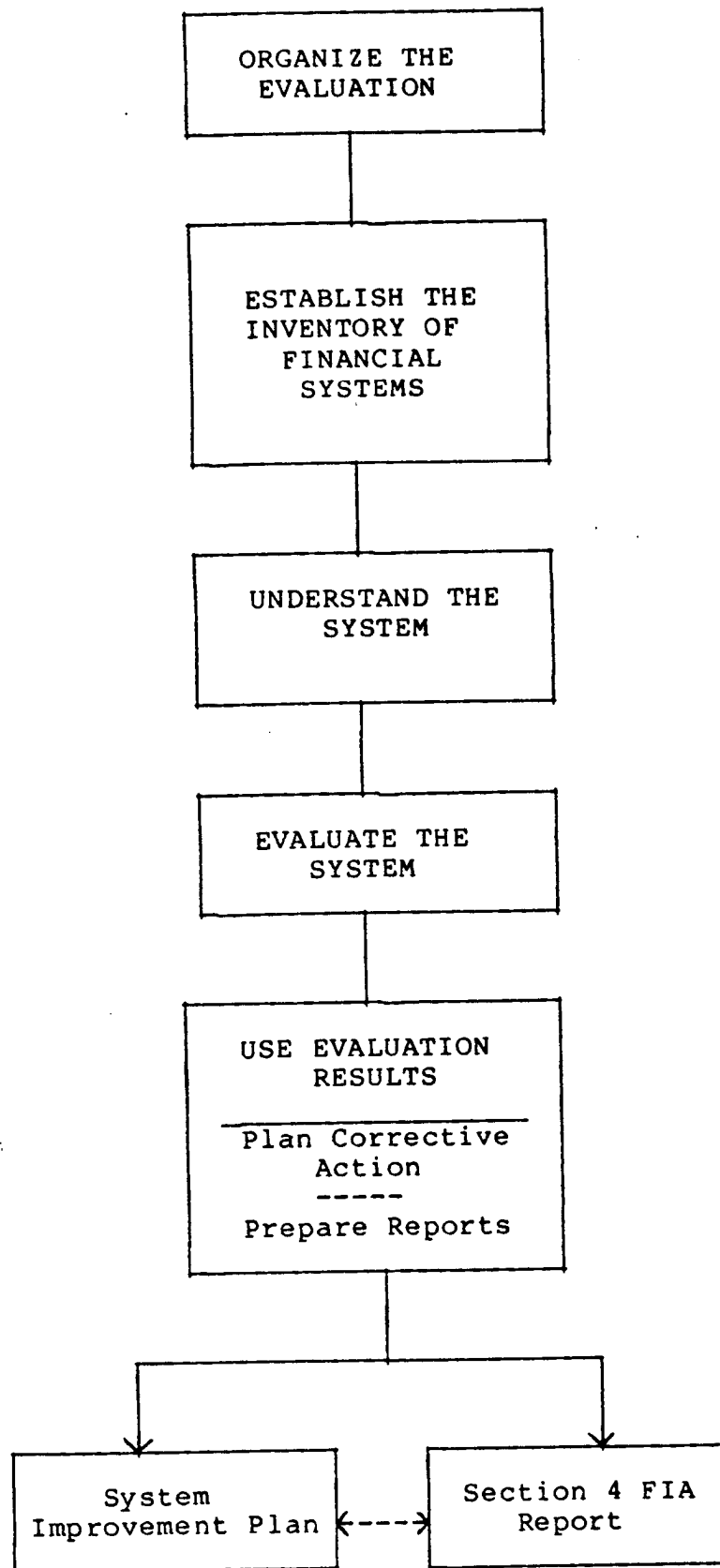
Results are to be summarized in an overall system review report, with recommendations for necessary corrective action and priorities for taking the action. The report is to be used in preparing the required management system plan. It should be updated as necessary to consider the results of subsequent detailed evaluations of components and sub-systems. Significant results of the evaluations also are to be included in the year-end accounting system report required by Section 4 of the Financial Integrity Act. (See Chapter V.)

- o Using the evaluation results. Evaluations that disclose instances of nonconformance should result in plans for corrective action. These plans should be considered in preparing the financial systems plan to be included with the agency's budget and management submission. (See Appendix F.) Evaluations indicating that accounting systems do not conform to appropriate principles and standards are to be included in the year-end report to the President and the Congress. (See Chapter VI.)

This recommended approach is depicted in the following flowchart (Exhibit 1) and explained in detail in Chapters II through VI.



OVERVIEW OF THE FINANCIAL MANAGEMENT SYSTEM  
EVALUATION, IMPROVEMENT, AND REPORTING PROCESS



## CHAPTER II

### ORGANIZING THE EVALUATION

The complexity of financial management within an agency and the relationship of financial management systems and sub-systems, require that any evaluation be organized and planned carefully. Several key matters need to be considered, including:

- o Assignment of responsibilities.
- o Selection and supervision of personnel.
- o Documentation.
- o Monitoring the process.
- o Scheduling evaluations.

### ASSIGNMENT OF RESPONSIBILITIES

The head of each agency has overall responsibility for ensuring that the financial systems conform to the policies and objectives of Circular A-127. All levels of agency management should participate in systems planning and evaluation to ensure that their needs are met. Responsibilities must be delegated carefully to senior officials to ensure that the system evaluation, improvement, and reporting requirements are carried out effectively. These officials should provide the agency head with assurances that their responsibilities are being carried out. Three levels of management have responsibility for evaluating and improving agency financial management systems. The responsibilities of each, and of the Inspector General (IG) are described below.

- o The agency head has overall responsibility for establishing and maintaining the financial management system. This includes ensuring that the system is operating, reviews are conducted, plans developed, and reports issued as required by Circular A-127.
- o A senior official shall be designated for coordinating the agency-wide effort of reviewing, improving, and reporting on the financial systems. This official should provide assurance that the processes for evaluation of accounting systems have been carried out in accordance with these guidelines. (See Appendix C.)
- o A system manager shall be named for each system component or sub-system in the agency's inventory of financial systems. This responsibility includes ensuring that the system is in accordance with the requirements of Circular A-127 and these guidelines. The manager of each system should provide assurance that the system has been evaluated in accordance with these guidelines; and that the reports of the evaluation fairly portray the system. (See Appendix D.)

- o The IG (or equivalent) should provide technical assistance and advice on the agency program to review and improve its financial management systems. This should be in addition to the reviews of financial systems undertaken by IGs.
- o In addition, the IG should advise the agency head whether the accounting system review has been carried out in accordance with these guidelines (See Appendix E). Making the limited review required to provide such advice should not preclude the IG from providing technical assistance in the agency effort to evaluate and improve the financial management system, or otherwise affect the work of the IG. The extent of IG involvement should be coordinated among the agency head, the IG, and the designated senior financial management official.

#### SELECTION AND SUPERVISION OF PERSONNEL

Adequate staff resources should be committed to the financial systems evaluation process. The individuals assigned should have a background in financial management/accounting systems or other appropriate skills. They must understand the importance of developing and implementing sound financial systems.

Specific measures that should be taken to assure staff have an adequate understanding of requirements include:

- o Orientation and Training -- Orientation and training programs should be provided to these individuals early in the review cycle, in order to advise them what needs to be done and to ensure that the reviews begin with proper direction and emphasis. The personnel assigned should be provided with a copy of Circular A-127, the Financial Management and Accounting Objectives, these evaluation guidelines, central management directives such as OMB Circulars, Treasury Fiscal Regulations, etc., agency implementing directives, and any other technical publications that would be useful for making the reviews.
- o Assignment of Personnel -- Consideration should be given to using the "team approach" in which small groups of individuals conduct the evaluations jointly. This is particularly important where one review of a system is made to meet these requirements and those in Circulars A-71, "Responsibilities for the Administration and Management of Automatic Data Processing Activities," and A-123, "Internal Control Systems." This provides some assurance that the limitations of one reviewer can be offset by the strengths of another, thus increasing the quality of the evaluations. It also stimulates individual evaluator's thinking, and lessens the potential for biased conclusions. Under a "team approach", individuals with specialized expertise can be detailed from different organizations within an agency. The knowledge that each acquires from such an assignment can be used to improve the system in the team member's own organization.

- o Supervision -- Personnel assigned should be supervised adequately to assure that the reviews are thorough, conclusive, and carried out as planned. Regardless of the approach chosen for evaluation, the responsibility for ensuring that an appropriate review is made, the results of the review evaluated, and the necessary improvements implemented rests with the manager responsible for the system.
- o Technical Assistance -- Technical assistance should be provided to employees assigned to the process. Uniform agency procedures to guide the annual review are encouraged, including the use of standard forms. Agency "experts" who can answer questions and provide other assistance should be designated and their names provided to the reviewers. Periodic circulation of informal guidance and meetings of key personnel involved in the process are other means of exchanging information.
- o Quality Assurance -- A quality assurance program should be established to ensure that the systems reviews are made in accordance with these guidelines in a thorough and conscientious manner, that they adhere to the agency's implementing instructions, and that they produce reliable results.

#### DOCUMENTATION

Documentation is important to the evaluation and improvement of financial management systems from two perspectives:

- o System Documentation -- Adequate written documentation should be developed and maintained. The financial management systems, transactions, and other significant events should be documented. The documentation should be kept up-to-date and be available for examination. System documentation should be in enough detail to permit a person knowledgeable of the agency's programs, and of systems generally, to review and obtain a comprehensive understanding of the operation of the system, component, and sub-system. Chapter IV discusses the documentation that should be developed and maintained to obtain an understanding of the agency's overall financial management system and its component parts.
- o Documentation of the Evaluation -- Documentation should identify the personnel involved and their roles, the review methods used, and the conclusions reached in the evaluation. This information will facilitate the development of plans for improving systems. It also will be useful for reviewing the validity of conclusions reached, assessing the performance of individuals involved in the evaluations, and making subsequent reviews.

## MONITORING THE PROCESS

A monitoring system should be established to help ensure that each financial system of the agency is reviewed as required. It should contain sufficient information on each component system and sub-system to permit reviews to be scheduled at the appropriate time, monitor their status, and keep track of results.

More specifically, the monitoring system should be used to:

- o Schedule and track the progress of reviews to ensure that they are complete and timely.
- o Accumulate information regarding departures from policies and objectives detailed in Financial Management and Accounting Objectives.
- o Accumulate information on material instances of nonconformance with the appropriate budget and accounting principles and standards that should be considered in the five-year system improvement plan and/or the year-end report required by Section 4 of the Financial Integrity Act.

A procedure should be established to track the planned improvements in the financial management systems and to report on the implementation in subsequent updates of the plan.

## SCHEDULING EVALUATIONS

Two separate but related products are to be developed annually as a result of systems evaluations:

- o An agency financial management systems plan, and
- o A report on the status of agency accounting systems required by Section 4 of the Financial Integrity Act.

The financial management system plan is to be included with the agency's budget and management submission, whereas the accounting system report is required by December 31 of each year. Sufficient evaluation work must be done each year to provide a basis for the plan and report.

A cycle of detailed evaluations should be planned so that each system component and sub-system is examined at least once every three years. Limited reviews are to be made for the remaining system components annually. Component systems and sub-systems scheduled to be discontinued or combined into other systems within the next two fiscal years need not be reviewed. A plan and schedule for making the necessary system reviews should be developed early in each fiscal year to help ensure that the reviews are completed by the time the review results are needed.

Scheduling of component system evaluations should be based on priorities considering known deficiencies and other factors. Priority considerations may include the size of the system in dollar activity and the full-time equivalent personnel involved in its operation; the newness of the system or the recency of major changes; the susceptibility of the system to loss or improper operation; the extent of prior difficulties with the system; and other problems as revealed by reports from the IG, GAO, and others.

In scheduling detailed system review work, consideration should be given to evaluations required by Circulars A-71, "Responsibility for the Administration and Management of Automatic Data Processing Activities," and Circular A-123, "Internal Control Systems." In achieving the objective of "System Integrity", it is intended that the evaluation work needed to satisfy the requirements of the three circulars be consolidated or coordinated to increase the efficiency and effectiveness of the effort.

### CHAPTER III

#### ESTABLISHING THE INVENTORY

Circular A-127 requires that each agency establish and maintain a single, integrated financial management system. Within such a system, various integrated components and sub-systems may be operated. The first step, therefore, in evaluating and improving the financial management systems is to identify each of the system components and sub-systems to be evaluated.

#### DEFINITIONS

- o Accounting system -- the system for recording, classifying, and summarizing information on financial position and operations.
- o Agency financial management system -- the total of agency financial systems, both manual and automated, for planning, budget formulation and execution, program and administrative accounting, and audit; as well as all other systems for recording and classifying financial data and reporting financial management information, including purchasing, property, inventory, etc.
- o Component and sub-system -- components are major elements of an overall agency financial system. They may stand alone or be linked through electronic means. A sub-system is a feeder system that furnishes essential administrative or financial data to another component of the financial system.

Financial management information is all information on Federal spending, collections, assets, liabilities, equity, and related budgetary transactions and balances. This also includes data used to develop information for decisionmaking regarding unit costs, average pay rates, user charges, etc. The financial management system of an agency is comprised of those systems and sub-systems used to collect, classify, analyze, and report financial data; process, control and account for financial transactions and resources; and generate financial information to support the agency's budget and operations. Included are the agency's systems for planning, budget formulation and execution, fund control, evaluation, program and administrative accounting, control of capitalized assets, and their feeder or subsidiary components. For example, they include the payroll systems with applicable sections of the personnel system that furnish data for payroll purposes; systems that account for the award of contracts or grants, or the collection of funds; disbursement/payment systems; etc. Systems of marginal importance to the agency-wide financial system may be excluded.

With accounting systems, the concern for conformance with appropriate principles and standards begins at the point at which a transaction is authorized. With financial management systems, the process includes identifying, gathering, and analyzing information.

#### DEVELOPING THE INVENTORY

Circular A-127 requires each agency to develop an inventory that includes existing and proposed systems or sub-systems making up the agency's overall financial management system. It must be maintained currently and a copy of the updated inventory is to be furnished to OMB annually. The name and title of the manager responsible for each system also should be maintained. The accounting systems included in the inventory should be identified to show that they are subject to reporting under Section 4 of the Financial Integrity Act.

Most agencies already have inventories for accounting systems. The more difficult task is to identify other portions of the financial system. Examples are the systems for reviewing and granting credit, or for reviewing grantee cash requests and approving disbursements. In many instances, the procedures and records are sparse and thus the systems can be easily overlooked.

Systems should be identified by reviewing automated system inventories, organizational charts, functional statements, operating plans, budget documents, etc; asking managers what is used to make decisions affecting financial resources, with consideration given to whether the answer suggests the existence of a system; and using lists of computer outputs to determine the kind of information that flows to managers for decisionmaking.

#### INVENTORY MATRIX

A check can be made to ensure that all of the systems have been identified by reviewing the types of financial information covered in OMB guidance listed in the agency's financial statements, budget documents, and Financial Integrity Act reports and developing a matrix for the financial management/accounting systems the agency operates to provide financial information. The horizontal axis of the matrix would be the systems. The vertical axis would be the types of information they contain. Exhibit 2 provides an example of such a matrix. This matrix is an example of what can be designed, but it is not intended to be all inclusive.





### INVENTORY DOCUMENTATION

An inventory record should be established for each identified system in operation and planned (which should be clearly identified as separate from systems in operation) containing at least the following data:

- o Title of the system.
- o Name of the organizational unit operating the system.
- o Type of system, e.g., general ledger, payroll, credit review, working capital.
- o Purpose of the system.
- o General system products (outputs).
- o General source data (inputs).
- o Year implemented and year of last major revision.
- o System manager, i.e., name, title, address, and phone number of individual with direct control over design and/or operation of the system.
- o General descriptions as to type of transactions, with the approximate number processed annually by major type.
- o Interfaces with other systems, i.e., sub-systems, supporting systems, etc.
- o Operating locations.
- o Major ADP characteristics, i.e., on-line, batch input, terminal input, etc.
- o Types of equipment, i.e., type of computer, types of terminals, computer center used, etc.
- o System improvements in existence or planned with (major enhancements, or modifications, new modules) commencement and estimated completion dates.

The inventory record should be used as a control device for scheduling and monitoring the evaluations, recording the instances of nonconformance, and scheduling and monitoring approved corrective or upgrade actions.

## CHAPTER IV

### UNDERSTANDING THE SYSTEM

An important part in the system evaluation process is to obtain a general understanding of how the overall financial management system operates. This includes the purpose and use of the systems and sub-systems, the relationship of these systems to each other, and how they function. Such information may already be available in a system design or operating procedures manual. If not, it should be developed since it can be useful in understanding how the system operates and in making reviews or evaluations of the system elements. It may best be obtained by using flowcharts and/or narrative descriptions on two levels. The first level is an overview of the entire system that shows functions, inputs, and outputs of each of the component parts of the overall system, and how they relate to each other. The second level is a more detailed explanation of the operation and flow of data in each of the components and sub-systems.

Details of system operation and the relationship of the various component parts may be acquired by various means including interviews with the personnel responsible for developing, operating, and using the system elements; examination of systems documentation and operating instruction manuals; and observation of operating activities. The knowledge thus obtained should be documented appropriately using standard flowcharting methods and/or narrative descriptions.

Flowcharting, accompanied by narrative information describing the process, can facilitate understanding systems and making the annual system review. This chapter describes a suggested approach to documenting the overview of an agency-wide financial management system, and the more detailed explanation of the operation and flow of data in each of the individual component and supporting systems that make up the overall system. The amount of detail required will vary according to the complexity of the systems, the documented detail presently available, and the need for such information to understand the nature and function of the systems, their relationship, and data flow.

### OVERVIEW OF THE AGENCY-WIDE SYSTEM

Obtaining an understanding of component systems, how they relate to one another, and how they support management enables the reviewer to understand the flow of data within the agency and between the systems. It also identifies duplicate systems, lack of integration, and instances where data are generated but not used.

Further, it permits the reviewer to ensure that all system components serve a useful purpose.

The suggested approach to obtaining this understanding is to flowchart each of the systems identified in the inventory; and identify each component part, the data flows, and other interfaces among the systems.

A brief narrative summary should be prepared indicating for each component and sub-system: (1) overall purpose and objectives, (2) nature of the data processed and produced, (3) relationship with other systems, and (4) its products and users. A sample overview flowchart followed by the summary narrative is presented in Appendix A.

#### DETAILED UNDERSTANDING OF SYSTEMS

The purpose of obtaining a more detailed understanding is to identify the sources of data and the information or other products produced, the supporting components and feeder elements, the organizations involved in the process, data flow and procedures used, the use made of the information or products produced, etc. This should assist in determining whether the system conforms with the policies and objectives set forth in Circular A-127 and other OMB guidance. A recommended approach to obtain a detailed understanding is to review system design and operating procedures manuals, or to take each system component included in the overview flowchart, identify its parts and functions, and describe them in a separate flowchart showing the operating activities or functions, and the data flows making up that element of the system. This second level flowchart should be followed by a brief narrative summary describing the key components, activities, responsibilities, data flows, and the nature of data processed and produced. The greater the detail in the flowchart, the less is required in the narrative. The following guidance should be useful for obtaining the detailed understanding of specific system components and sub-systems.

1. Obtain the information necessary to prepare each flowchart by reviewing existing systems documentation and reports, interviewing appropriate personnel operating and using the system, reviewing forms generated or processed by the system, observing the operating activities, etc.
2. Keep the flowchart simple. Avoid excessive detail that could make the flowchart confusing. Concentrate on the data flows, description of the data and functions. Include sufficient detail to permit identification of the various parts of the system subject to examination.

3. Flowchart the procedures, show the flow of data and events, to whom reports are sent, and present the narrative following the sequence of the chart. Ensure that the chart follows a logical sequence.
4. Identify the points at which data enter and leave the system and the disposition of documents, data, or other products generated by the system.

A sample second level flowchart for a component of the financial management system with its summary narrative is presented in Appendix B.

## CHAPTER V

### EVALUATING THE SYSTEM

Circular A-127 requires an annual review by system managers and users in accordance with these guidelines. The review should result in a documented assessment of how well the overall financial management system conforms to the policies and objectives set forth in the Circular. The review is expected to be based upon management's evaluation of the system, with the view toward determining whether there is reasonable -- not absolute -- assurance that the systems are meeting established policies and objectives.

To the extent possible, the review should be coordinated with and build upon the evaluations being made under Circulars A-123, "Internal Control Systems" and A-71, "Responsibilities for the Administration and Management of Automatic Data Processing Activities." The results of the review are to be used as a basis for developing the agency's financial management system plan and Section 4, Financial Integrity Act report, as discussed in Chapter VI.

#### Making the System Review

The review should consist of a combination of three elements: (1) the application of existing knowledge of the overall system and its component parts, (2) a limited review of the system components and sub-systems, and (3) a detailed evaluation of individual systems and their component parts.

- o Application of General Knowledge. The application of existing knowledge of system characteristics and procedures by the system managers and users can be both time saving and productive. This knowledge may have been obtained through working experience with the systems, or by reviewing the results of previous evaluations, or recent IG, GAO, and other reports.
- o Limited Reviews. A simple, but structured procedure -- that may take the form of a desk review -- should also be used for the annual review of those system components not subject to detailed evaluation in the current year. The limited system review should be made by the system manager in consultation with the operators and users through the use of a questionnaire, checklist, or similar methodology. This review should be based on the

characteristics presented in Financial Management and Accounting Objectives. The review methodology should be tailored by each agency and its system managers to fit their particular circumstances and systems. The key factors that indicate conformance with Circular A-127 should also be incorporated into the review guide. Limited reviews should be made annually for each financial system component and sub-system not subject to detailed evaluation. Completion of the limited reviews provides a basis for preparation of the required plans and reports as well as for planning and making the subsequent detailed evaluations.

- o Detailed Evaluation. A detailed examination that includes transaction testing, should be made on a cyclical basis for each system component and sub-system. Each system should be examined and evaluated in detail at least once every three years. The purpose of the detailed evaluation is to identify practices and procedures that fail to conform to established criteria and provide a basis for improvement plans. An evaluation program, developed by the agency to meet its particular circumstances, is to be used as the basis for making the detailed evaluations. The program should provide appropriate criteria for testing and measurement, based upon the Financial Management and Accounting Objectives and the applicable requirements of law, regulation, or other authoritative sources. The detailed evaluations should include tests of a variety of transactions, selected on a valid sampling basis. Transactions should be traced through the system to determine how the system reacts and whether the reactions are in accordance with the criteria presented in the evaluation program. See Appendix H for additional guidance on testing systems.

Systems that are to be replaced or combined with others within the next two fiscal years need not be subjected to a detailed evaluation. Also, to the extent possible, the reviews required by Circulars A-71, A-123, and A-127 should be coordinated or consolidated to avoid duplication, overlap, or omissions, and to enhance the efficiency and quality of the overall review effort.

The results of the detailed evaluations should be used in the preparation of the financial management system plan and the Section 4, Financial Integrity Act report. Some of the detailed evaluations may be completed after preparation of its financial management system plan and before the Section 4 report is submitted. Significant results from such evaluations must be reflected in subsequent revisions to the plan and the Section 4 report.

During the initial review of its financial management system, the agency should apply existing knowledge and make a limited review of each system component and sub-system that is expected to continue in operation for more than two years.

### Documentation and Responsibilities

A summary of the overall review work and the results of each review completed must be maintained in order to permit an objective assessment of the nature and quality of the work done. It also serves as a basis for preparing the agency financial management plan, other required reports, and in planning future review efforts. The summary should be maintained with the system flowcharts, systems design documentation, and procedural manuals.

The system manager is responsible for the annual system review. Use of the team approach and assistance of operators and users is encouraged in making the detailed evaluations. The senior official assigned overall system management responsibility is responsible for monitoring, controlling, and assuring the adequacy of the annual review, and developing the agency's financial management plan (see Chapter VI).

### Summary Reports

Upon completion of each limited review or detailed evaluation, a report summarizing the results shall be prepared by the system manager. The report should summarize the nature, extent, and results of the review, and be submitted to the senior financial management official. A sample report that may be used to summarize the results of the review and satisfy the system manager's responsibility for providing a statement of assurance is presented in Appendix D.



## CHAPTER VI

### USING THE EVALUATION RESULTS

Financial Management and Accounting Objectives sets forth the characteristics that agency systems should have. Agency evaluations, made in accordance with these guidelines, are intended to identify the instances where these objectives are not being met. Upon completion of the annual review, the information derived is to be used by managers to: (1) develop a five-year plan and (2) prepare the report to the President and the Congress required by Section 4 of the Financial Integrity Act. This chapter presents the suggested contents of the plan and the report.

### ACCUMULATION OF EVALUATION DATA

The results of the annual review need to be accumulated, classified, summarized, and analyzed in developing the five-year plan. Information relating to accounting systems should be used to satisfy the reporting requirements of the Financial Integrity Act. The plan and the report are to be prepared by the senior financial system official.

The senior financial system official is responsible for summarizing the reports on individual system component and sub-system and preparing an overall system review report. That report should summarize the results of the annual reviews and identify instances of material nonconformance with the policies and objectives set forth in Circular A-127. A summary of corrective action and their priority should be included in the overall report. In determining the actions to be taken, consideration should be given to availability of resources, the risk of loss or adverse action, and other management action being taken. The report should be used as a basis for preparing the agency's financial management plan, and the report required by the Financial Integrity Act.

### FINANCIAL MANAGEMENT SYSTEM PLAN

Circular A-127 requires the development of a five-year plan for a single, integrated, efficient agency-wide financial management system. It is to be approved by the agency head and accompany the budget and management submission to OMB. The plan must contain specific milestones and obligation and outlay estimates for each major financial system component making up the agency's financial management system. The estimates should include funding for the operation and maintenance of the systems, including automated system software and related ADP equipment. The plan must include a structured review and internal change process, and be coordinated with the information technology five-year plan.

The plan should contain the following information:

- o Each major financial system component making up the agency's financial management system, with annual operating obligation and outlay estimates for the current year, budget year, and four succeeding years.
- o Each financial system that is not in conformance with the financial management and accounting objectives and the missing system components or interfaces needed for a single integrated system.
- o The changes, in priority order, that are required to achieve a system that meets the established objectives. Show for each change or improvement required:
  1. Summary description of project, identification of the system components affected, and relationship to the overall financial management system.
  2. Annual obligation and outlay estimates for the current year, budget year, and four succeeding years.
  3. Commencement date and all milestone and target completion dates.
  4. Anticipated benefits and relation to the policy and objectives of Circular A-127.

The financial management plan shall be consistent with the agency's budget and management submissions concerning information technology systems. See Budget Exhibits 43A and 43B, as prescribed by Section 43, Circular A-11. The format for the plan is shown in Appendix F.

The plan is to be maintained on a current basis and the planned actions included in it should be consistent with those included in the Section 4, Financial Integrity Act report.

#### SECTION 4 FMFIA REPORTING

Circular A-127 provides, in accordance with Section 4 of the Financial Integrity Act, that:

1. The head of each agency subject to the Act shall report to the President and the Congress on whether the agency's accounting systems conform with the principles and standards developed by the Comptroller General and implemented through Circular A-127.

2. The report shall reflect the agency head's judgment of conformance based on the annual review carried out in accordance with Chapter V of these guidelines, and
3. The report shall be completed and submitted by December 31 of each year for the fiscal year ending September 30.

The report may take the form of a letter, and should provide the following information:

- o General statement of the nature and scope of the review.
- o A conclusion on conformity with accounting principles and standards for all agency accounting systems or the individual systems.
- o List of material instances of nonconformance.
- o Inventory of accounting systems, details of material instances of nonconformance, with the plans and schedule for corrective actions. These may be placed in attachments to the report.

Details of the agency's review process and the result of actions taken to improve its overall financial management/accounting system may be included in the report.

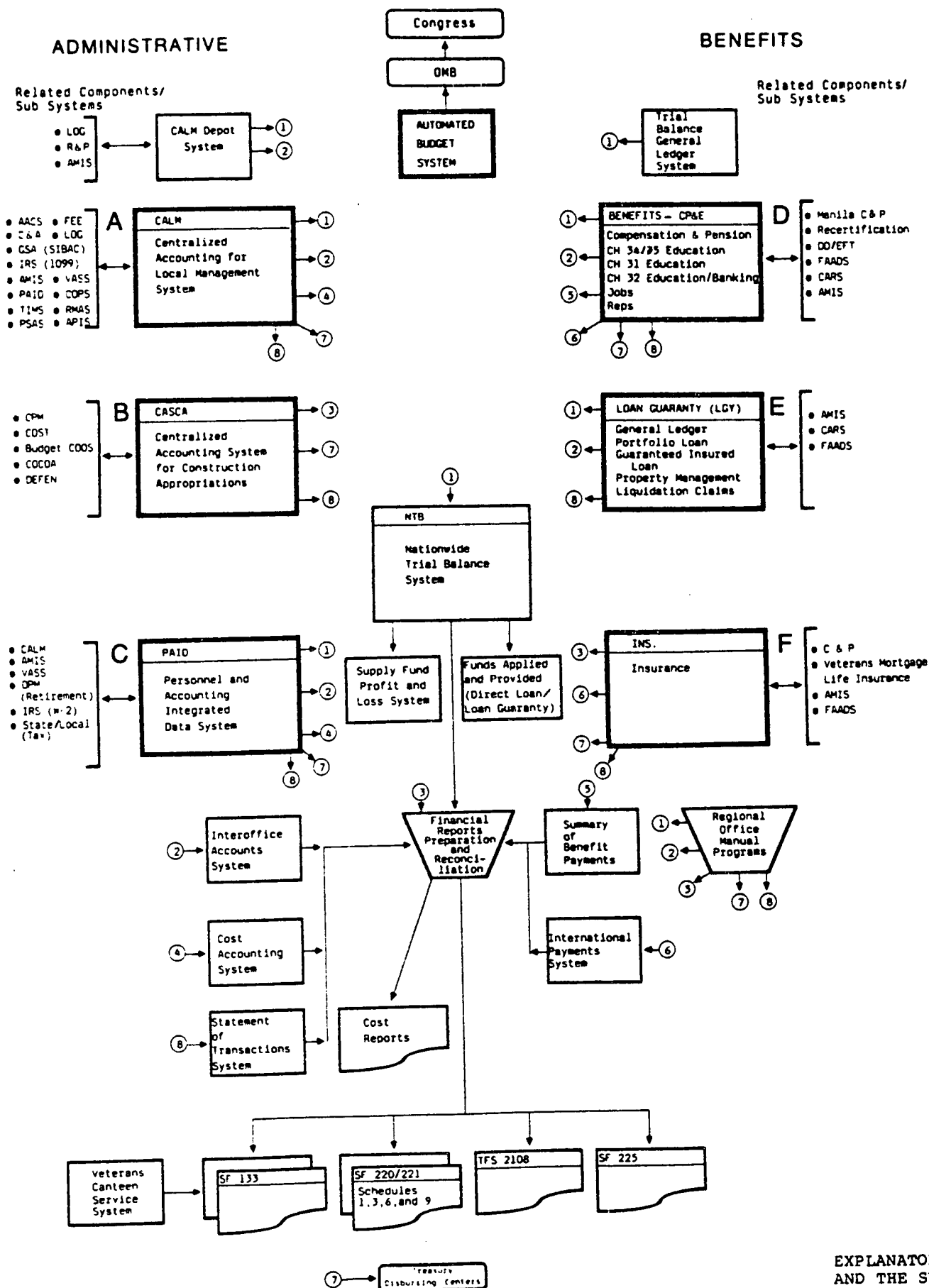
A sample letter report is presented in Appendix G. The report may be submitted under separate cover or made part of the internal control report required by Section 2 of the Financial Integrity Act.

The planned corrective actions shown in the report should be reflected in the updated financial management system plan included with the agency's budget and management submission. The reported corrective actions should be a part of the overall agency plan and supportive of the policies and objectives set forth in Circular A-127.

## GLOSSARY

- o Accounting System -- the system for recording, classifying, and summarizing information on financial position and operations.
- o Agency -- any Federal department or independent entity in the Executive branch including Government corporations and commissions.
- o Assurance Letter -- a written communication that briefly sets forth the nature and extent of financial system review and presents the results of the review.
- o Detailed System Evaluation -- the substantive self-examination by system managers, operators, and users of a system component or sub-system made through use of an evaluation program and including transaction testing.
- o Financial Management System -- the total of agency financial systems, both manual and automated, for planning, budget formulation and execution, program and administrative accounting, and audit; as well as all other systems for recording and classifying financial data and reporting financial management information, including purchasing, property, inventory, etc.
- o Limited System Review -- a simple, but structured procedure consisting of the use of a questionnaire, checklist, or similar methodology, to ascertain whether a system component or sub-system meets the objectives set forth in Circular A-127.
- o Senior Financial Management System Official -- the senior agency official responsible for coordinating the overall agency-wide effort of reviewing, improving, and reporting on an agency's financial system.
- o System Component and Sub-system -- components are major elements of an overall agency financial management system. They may stand alone or be linked through electronic means. A sub-system is a feeder system that furnishes essential administrative or financial data to another component of the financial system.
- o System Manager -- the manager named as the responsible official for ensuring that the system component or sub-system is established, maintained, reviewed, improved, and reported on in accordance with the requirements of Circular A-127 and the Evaluation Guidelines. A manager is to be named for each system component or sub-system in the agency's inventory of financial management systems.

# Veterans Administration Financial Management System



EXPLANATORY NOTES  
AND THE SYSTEM  
NARRATIVE ARE ON  
THE FOLLOWING PAGES

OVERVIEW NARRATIVE  
FINANCIAL MANAGEMENT SYSTEM  
VETERANS ADMINISTRATION (VA)

EXPLANATORY NOTES:

1. This chart portrays the various components of the VA financial management system and the electronic transfer of data between sub-systems. Letter symbols (A-F) denote six of the largest component systems which comprise the VA financial management structure. They are:

- A. CALM - Centralized Accounting for Local Management
- B. CASCA - Centralized Accounting System for Construction Appropriations
- C. PAID - Personnel and Accounting Integrated Data
- D. BENEFITS - Compensation Pension and Education
- E. LGY - Loan Guaranty
- F. INS - Insurance

2. The "connector" symbol (#) with a number shown inside of the connector illustrates the electronic flow of data in or out of a system. Where there is no "connector" symbol, it represents a non-electronic data transfer. The "connector" symbols used are explained below:

- 1. Monthly, cumulative general ledger data are provided by feeder systems.
- 2. Three times per year (February, June, and September), analyses of selected general ledger accounts controlling interstation transfers are provided by feeder systems.
- 3. Monthly, manual general ledger trial balances are provided to the Financial Reports Division.
- 4. Monthly, cumulative non-personal service cost is provided by CALM. Bi-weekly, personal service cost and FTE (work hours) data are provided by PAID.
- 5. Monthly, cumulative cost for various benefit programs are provided by feeder systems.
- 6. Quarterly, statistics on the number of checks and dollar value of checks for selected benefit programs by country of residence of recipient are provided by feeder systems.
- 7. Daily or cycle processes, vouchers, and schedules of payments by Agency Location Code are provided to the appropriate Treasury Disbursing Center. These may be either magnetic tape or manually prepared vouchers.
- 8. Monthly, dollar totals of disbursements and receipts are reported on the SF 224s.

## NARRATIVE DESCRIPTION:

A brief description of the systems shown on the overview flowchart is provided below.

SYSTEM COMPONENT AExplanation of Operations

Centralized Accounting for Local Management (CALM) System	Processes all financial transactions relating to VA's administrative expense appropriations -- e.g., salaries, supplies expense, etc.
---	---

## Example of a Related Component/Sub-system:

Fee Basis Medical and Pharmacy (FEE) System	Processes transactions to authorize medical care and services from private health care providers on a fee basis, authorizes fee basis health care, maintains detailed records on fee basis health care provided, and computes and issues fees to private health care providers.
--	---

## Other Related Component/Sub-systems:

AcronymFull Title

AACS	Automated Allotment Control System
C&A	Consultants & Attendings
LOG	Integrated Procurement, Storage, and Distribution System
GSA (SIBAC)	General Services Administration - Simplified Intergovernmental Billing and Collection System
IRS (1099)	Internal Revenue Service (Form 1099)
AMIS	Automated Management Information System
VASS	VA Service Summary
PAID	Personnel and Accounting Integrated Data System
COPS	Court Ordered Payment System
TIMS	Target Inventory and Maintenance System
RMAS	Resource Management Accounting System
PSAS	Prosthetics and Sensory Aids System
APIS	Automated Pharmacy Information System

SYSTEM COMPONENT BExplanation of Operations

Centralized Accounting System for Construction Appropriations (CASCA) System	Maintains general ledger accounts for VA's construction appropriations.
---	---

Example of a Related Component/Sub-system:

Critical Path Method(CPM) System	Records and tracks progress of individual construction project and issues progress payments to contractors.
-------------------------------------	---

Other Related Components/Sub-systems:

<u>Acronym</u>	<u>Full Title</u>
COST	Cost Accounting
Budget/COOS	Budget System Construction Obligation Outlay System
COCOA	Construction Cost Analysis
DEFEN	Design Fee Negotiation System

<u>SYSTEM COMPONENT C</u>	<u>Explanation of Operations</u>
Personnel and Accounting Integrated Data (PAID) System	VA's centralized personnel/payroll system which maintains central personnel and payroll master files, computes the biweekly payroll, prepares magnetic tapes sent to the Treasury Regional Disbursing Office for preparation and issuance of checks, prepares statistical reports, and maintains cost data.

Example of a Related Component/Sub-system:

Cost Accounting System (COST)	Records and reports program and administrative cost information by field installations, medical districts, and VA-wide, provides information to central office staff offices, Department of Veterans Benefits, Department of Medicine and Surgery, Office of Data Management and Telecommunications, and Office of Budget and Finance.
-------------------------------	--

Other Related Component/Sub-systems:

<u>Acronym</u>	<u>Full Title</u>
CALM	Centralized Accounting for Local Management
AMIS	Automated Management Information System
VASS	VA Service Summary
OPM Retirement	Retirement
IRS (W2)	Internal Revenue Service (W-2 Tax Withholding)
State/Local Tax	State and Local Tax Withholdings



SYSTEM COMPONENT D - BENEFITS   Explanation of Operations

Compensation and Pension  
(C&P) System

Processes claims for compensation and pension benefits, verifies claimants' eligibility for benefits, computes benefit amounts, maintains detailed records on claims and payments made, and produces a magnetic tape sent to the appropriate Treasury Regional Disbursing office to effect preparation and issuance of benefit checks.

Education System - Chapter  
34/35 Benefits

Processes claims for Chapter 34/35 education benefits, maintains detailed records on benefit payments, produces reports on benefit payments, and makes benefit payments through the appropriate Treasury Regional Disbursing Office.

Vocational Rehabilitation  
and Education (Chapter 31)  
System

Processes claims for Chapter 31 vocational rehabilitation and education benefits, maintains detailed records on benefit payments, produces reports on benefit payments, and makes benefit payments through the appropriate Treasury Regional Disbursing Office.

Chapter 32 Education/Banking  
System

Processes claims for Chapter 32 education benefits, maintains detailed records on benefit payments, produces reports on benefit payments, and makes benefit payments through the appropriate Treasury Regional Disbursing Office.

The Chapter 32 Banking System maintains detailed subsidiary ledger account records for active members of the military services on their deposits and the Department of Defense's contributions to their individual educational accounts.

JOBS: (Emergency Veterans  
Job Training Act of 1983)

Provides payments to defray training costs to employers that hire and train certain veterans who have been unemployed for a long time.

Reinstated Entitlement  
Program for Survivors  
(REPS)

Restores benefits (formerly provided by Social Security) to surviving spouses and children of certain veterans who died of service connected causes. Processes claims for benefits under REPS, determines claimants' eligibility for benefits, authorizes benefits, and makes benefit payments through the appropriate Treasury Regional Disbursing Office.

Example of a Related Component/Sub-system:

Manila Compensation and  
Pension (C&P) Payment  
System

Processes claims for compensation and pension benefits, computes benefit amounts, maintains detailed records on claims and payments made, and produces a magnetic tape sent to the appropriate Treasury Regional Disbursing Offices to effect issuance of benefit checks for veterans residing in the Philippines.

Other Related Components/Sub-systems:

<u>Acronym</u>	<u>Full Title</u>
RECERT	Recertification System
DD/EFT	Direct Deposit/Electronic Funds Transfer
FAADS	Federal Assistance Awards Data System
CARS	Centralized Accounts Receivable System
AMIS	Automated Management Information System

SYSTEM COMPONENT E - LGY

Explanation of Operations

General Ledger System (GLS)

Entries from PLS, PMS, and LCS are system generated. At the end of the month, stations manually input entries to record cash receipts and disbursement journals, allotment ledger, and any necessary adjustments. GLS generates the individual regional office's trial balances.

Portfolio Loan System (PLS)

Records transactions information and maintains detailed loan records for

	VA portfolio loans. (It accounts for the loans, processes collections on loan repayments, controls individual loans, and produces management, accounting, and statistical reports.)
Guaranteed and Insured Loan (GIL) System	Records transaction information and maintains detailed records on the volume and characteristics of loans secured by veterans from private financial institutions and guaranteed or insured by VA.
Property Management System (PMS)	Records transaction information, maintains detailed subsidiary ledger records on, and controls real estate acquired by VA as a result of veterans' defaulting on VA guaranteed and direct mortgage loans (VA portfolio loans). (The system records, reports, and controls information on property acquisitions and sales. It also initiates and controls payment of real estate tax bills on VA owned properties. The records maintained by this system support general ledger control accounts in the General Ledger System.)
Liquidation and Claims Systems (LCS)	Records transaction information and maintains detailed subsidiary ledger records on (1) repayment of loans by veterans, (2) defaults on loans to veterans, (3) liquidations of loans to veterans, and (4) claims on outstanding veteran loans. (It also records and reports on defaults and claims for repurchase on sold vendee accounts and certain direct loans sold with specific repurchase agreements. LCS supports and updates general ledger control accounts in the General Ledger System.)

Example of a Related Component/Sub-system:

Central Accounts Receivable System (CARS)	Maintains detailed subsidiary ledger accounts for receivables resulting from overpayments made under the compensation, pension, education, and loan guaranty benefits programs (The system supports VA's debt collection process.)
---	--

## Other Components/Sub-systems Related to Component E:

<u>Acronym</u>	<u>Full Title</u>
AMIS	Automated Management Information System
FAADS	Federal Assistance Awards Data System

<u>SYSTEM COMPONENT F</u>	<u>Explanation of Operations</u>
Insurance System (INS)	Records and controls transaction information, maintains detailed subsidiary ledger accounts, and maintains summary general ledger accounts with updates and edits for the VA's five life insurance funds for which VA functions as a life insurance company.

## Example of a Related Component/Sub-system:

Automated Management Information System (AMIS)	Collects, records, and reports summary information on the results of program and administrative operations on a VA-wide basis.
--	--

## Other Component/Sub-systems:

<u>Acronym</u>	<u>Full Title</u>
C&P	Compensation & Pension System
VMLI	Veterans Mortgage Life Insurance System
FAADS	Federal Assistance Awards Data System

<u>OTHER MAJOR COMPONENT SYSTEMS</u>	<u>Explanation of Operations</u>
Automated Budget System	Records and reports budget submissions by VA organizational components. This system is used to internally formulate the agency-wide September budget submissions. This system covers the extended budgeting period and is at the sub-program level. The pass-back of the OMB mark is developed in conjunction with this system. The budget execution and fund control functions are carried out in the major accounting component systems (e.g., CALM, CASCA, etc.).

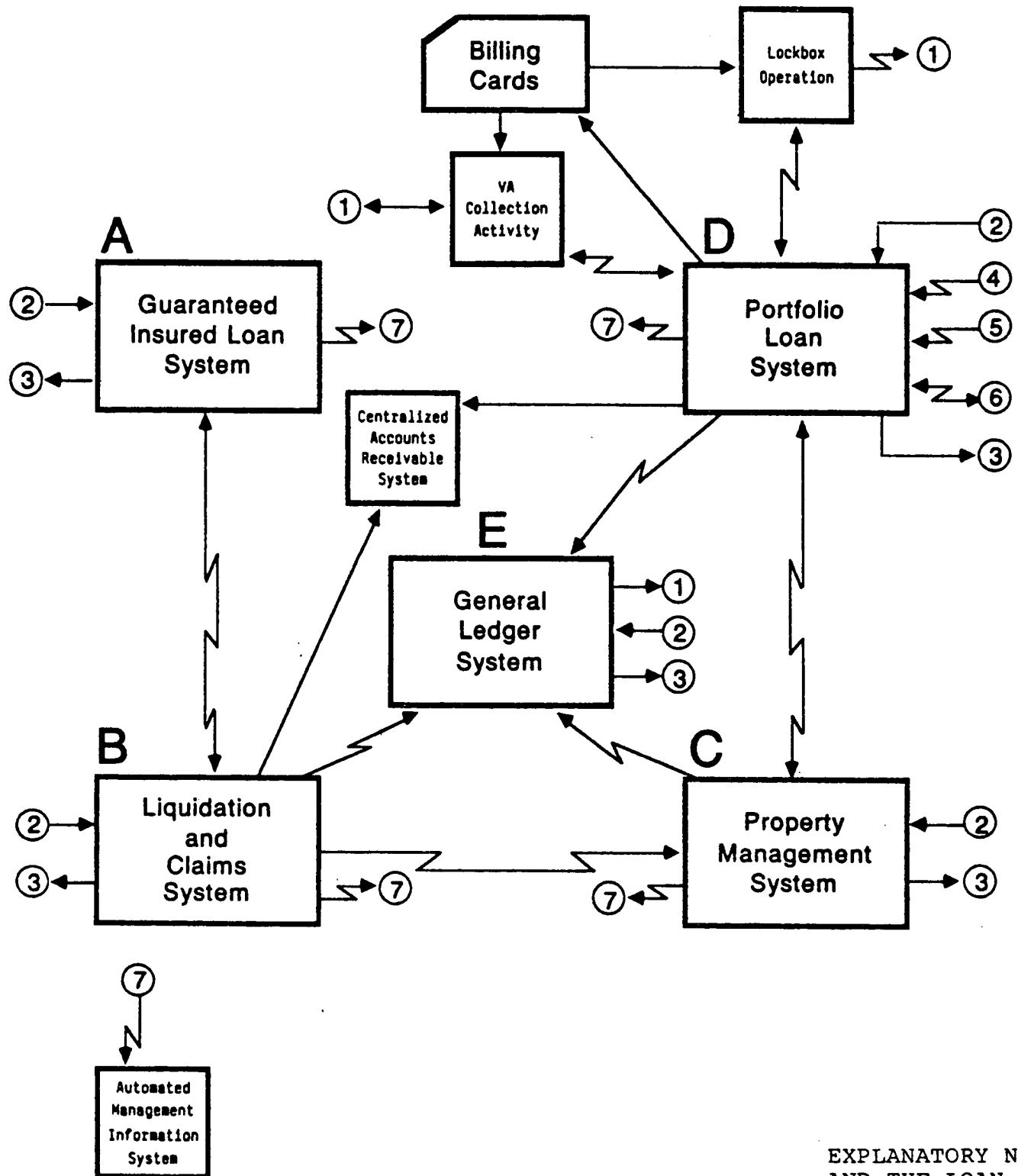
Centralized Accounting for Local Management (CALM) Depot System	Maintains general ledger accounts for Supply Fund Operations at VA medical supply depots.
Veterans Canteen Service Accounting System	The financial and retail management information systems of the Veterans Canteen Service are to be automated using commercially-developed hardware and software. A contract award was made in FY 83 for this system to be located at the Finance Center, St. Louis, Missouri. Automated functions of the proposed system include: general ledger, accounts payable, accounts receivable, field asset control, operations retail analysis, and retail inventory control. This is a stand alone system.
Nationwide Trial Balance System	Records summary general ledger account information and produces consolidated VA financial reports.
Supply Fund Profit Loss System	Prepares financial reports on the results of operations of VA's supply fund.
Direct Loan/Loan Guaranty Production Fiscal Funds Applied and Provided (PFISFAAP) System	Records transactions information and maintains detailed records on monthly operating plan data, fund management, projections of future budget amounts for direct loan and loan guaranty funds.
Interoffice Accounts System	Produces analyses of transfer of fund transactions between VA facilities.
Cost Accounting System	Records and reports program and administrative cost information by field installations, medical districts, and VA-wide, provides information to central office staff offices, Department of Veterans Benefits, Department of Medicine and Surgery, Office of Data Management and Telecommunications, and Office of Budget and Finance.

Statements of Transactions Systems	Reconciles payment information recorded in the Department of Treasury's Central Accounting System with payment information recorded in VA's general ledger systems and reported to Treasury.
Summary of Benefit Payments (SBP) System	Maintains general ledger accounts for VA benefit payments under the compensation, pension, and education benefit programs (The SBP system maintains accounts by benefit program appropriations and by entitlement category. It provides information to the National Consolidated System.)
International Payments System	A system that produces on a quarterly basis, statistics on the number of checks and dollar value of checks for selected benefit programs by country of residence of recipient.
Trial Balance - General Ledger System	Produces a VA-wide general ledger trial balance.

# Sample Second Level Flow Chart

## Loan Guaranty System

### Veterans Administration



EXPLANATORY NOTES  
AND THE LOAN  
GUARANTY NARRATIVE  
ARE ON THE  
FOLLOWING PAGES

LOAN GUARANTY SYSTEM NARRATIVE  
FINANCIAL MANAGEMENT SYSTEM  
VETERANS ADMINISTRATION (VA)

EXPLANATORY NOTES:

1. This second level detail flowchart illustrates one of the VA's large component systems and its main sub-systems.
2. The Loan Guaranty System records transaction information and maintains detailed records on loans obtained by veterans from private financial institutions and guaranteed or insured by VA.
3. The "connector" symbol (#) with a number shown inside of the connector illustrates the flow of data in or out of the component system. These are: (1) U.S. Treasury (includes Regional Finance Centers), (2) Manual input, (3) System output, (4) Military allotments, (5) Deducts from compensation or pension, (6) Terminated file (includes loans sold or paid in full), and (7) Automated Management Information System (AMIS). The letters represent sub-systems of the component and are explained below:
  - A. Loans obtained by veterans from private financial institutions and guaranteed or insured by VA. This data is recorded in the Guaranteed Insured Loan (GIL) System.
  - B. Loans in foreclosure status, foreclosed loans, and cured loans are input from regional offices. The input follows the loan through the foreclosure actions and VA's payment of claim and/or acquisition. This data is recorded in the Liquidation and Claims System (LCS).
  - C. VA owned properties includes the acquisition or value of property, capital charges, and expenses and income on property while owned by VA. The sale of the property also is recorded in the Property Management System (PMS).
  - D. VA owned loans receivables and loan payments, tax and insurance disbursements, and interest and late charge income are recorded in the Portfolio Loan System (PLS). Most loan payments are received via the lockbox operation. The funds are electronically transmitted to the U.S. Treasury via the Treasury Financial Communications System (TFCS). The data is transmitted via tape to the VA Data Processing Center (VADPC) to update the individual master records. When loans are sold, funds are transmitted to U.S. Treasury via TFCS by the purchaser. VADPC inputs termination cards to record the sale. The VA regional office closing the sale transmits 4-4564s (Transfer of Disbursing Authority) to the applicable regional offices. The loan master records go into an inactive file.
  - E. The general ledger accounts include accounting transactions which are system generated from LCS, PMS, and PLS into the General Ledger System (GLS). Regional offices also input



transactions into GLS to record cash disbursements and receipts journal as well as allotment ledger and adjusting entries. These transactions are primarily entered at end of month.

#### NARRATIVE DESCRIPTION:

The Loan Guaranty Systems consist of the five sub-systems previously mentioned. A brief narrative description of each follows.

##### A. Guaranteed Insured Loan (GIL) System

This system contains data on veterans who have applied for a certificate of eligibility. If the veteran meets the requirements (time in service, remaining eligibility, etc.), this is granted and VA makes the loan commitment. When the veteran locates a house, VA appraises it and agrees to insure the loan. Veteran and loan data are manually input in the GIL System. A contingent liability report, and reports by county of loans insured are generated from the system. Most reports from GIL systems are statistical and are used by Loan Guaranty Service. Most loans are eventually paid in full by the veteran and no input is made to the other systems. If the loan goes into default, the lending institution may notify VA of its intent to foreclose. This data is manually input into GIL systems and entries to create a master record in LCS are system generated. Input into the Automated Management Information System (AMIS) is computer generated.

##### B. Liquidation and Claims System (LCS)

The master record in LCS is created by system generated entries from the GIL. Loan Guaranty Service personnel in the regional offices make manual input into the system to record actions they make such as counseling the veteran and attempting to "cure" the loan. Information is system generated back to GIL at this stage of activity. If the problem cannot be resolved, the bank forecloses on the loan and VA is liable for the insured amount of the loan. VA may pay the claim and acquisition, claim only, or acquisition only. If the claim is paid, the Loan Guaranty Service advises the Finance Service of amount of debt to be established against the veteran. This debt is manually input into the Centralized Accounts Receivable System (CARS). Loan Guaranty Service approves the voucher for payment which is recorded; VA pays by sending an SF 1166 (Voucher and Schedule of Payments) to Treasury's Regional Finance Center for disbursements. The payment is recorded in LCS and the capital value of property is system generated into PMS. Payments recorded in LCS cause a system generated entry in GLS to record the payment in the General Ledger. Entries into AMIS are computer-generated.

### C. Property Management System (PMS)

The Property Master Record is established electronically from LCS. Payments for capital improvements and property expenses are paid via SF 1166 to Regional Finance Centers. Transactions are manually input into PMS to update the individual property accounts. The transactions cause entries to system generate into GLS. In addition, the Property Management Section codes various transactions, such as property status, title status, etc., to update the master record. Upon sale of the property, the sales information is recorded in PMS such as downpayment, loan and installment data (if term sale), and sales broker information. This information is electronically transmitted to PLS and establishes the loan master record. Reports concerning profit and loss on individual properties, by station totals and U.S. totals are generated from PMS. When the property is sold it moves to a sold stage. All accounting entries processed in PMS are system generated into GLS to update the General Ledger. Information is system generated into AMIS.

### D. Portfolio Loan System (PLS).

The mortgage loans are established in PLS from system generated entries on sale of property in PMS. Taxes and insurance accounts are maintained and disbursed within the system. Most loan payments are made to the VA lockboxes operation, deposited daily and collection data is transmitted via tape to the VADPC. Some collections are received by the VA Collection Unit or regional offices where they are input into the system. Normally, just the amount is entered and PLS automatically spreads the amount to credit principal, tax and insurance escrow account, and interest. Loans paid-in-full require manual input into the system. Loans are sometimes sold to private investors with a repurchase agreement if they go into default. The loan sales entries are input at the VADPC. The funds from the purchase are transmitted via TFCS to U.S. Treasury. If VA has to repurchase, these entries are manually input. If a PLS loan goes into default, input in PLS will cause entries to be system generated into PMS to establish a master record. All accounting entries create system generated entries into GLS and AMIS. Billing cards are generated from this system and mailed to the borrower. If a loan maintained in PLS goes into default and the borrower is a veteran, a debt may be established in CARS.

### E. General Ledger System (GLS).

Entries from PLS, PMS, and LCS are system generated. At the end of the month, stations manually input entries to record cash receipts and disbursement journals, allotment ledger, and any necessary adjustments. GLS generates the individual regional office's trial balances.

Appendix C

SAMPLE LETTER FOR ASSURANCE TO THE  
AGENCY HEAD FROM THE DESIGNATED SENIOR OFFICIAL

Dear (agency head):

In accordance with your delegation of responsibilities, we have reviewed the accounting systems in effect during fiscal year \_\_\_\_\_. The review was made in accordance with Guidelines for Evaluating Financial Management/Accounting Systems, issued by the Office of Management and Budget, and based on the principles and standards developed by the Comptroller General and implemented through OMB Circular A-127.

Since the review process is a continuous one, we have not completed detailed evaluations of all systems this year. We have, however, made at least a limited review of each system and plan to make a detailed evaluation of each of the systems at least once every three years. The completed evaluations rely on tests of transactions and there is no assurance that the systems operate at all times in accordance with the test results.

The results of the review described above, approvals already provided by the General Accounting Office for certain of our accounting systems, assurance given by agency officials, and other information provided indicate that our accounting systems, taken as a whole, generally conform to the principles and standards developed by the Comptroller General, and implemented through OMB Circular A-127, except as follows:<sup>1/</sup>

(List of material instances of nonconformance, if any)

Further details of these instances of nonconformance and our plan and schedule for corrective action are contained in Attachment \_\_\_\_\_. These matters with the applicable corrective actions have been incorporated into the updated financial management plan submitted to the Office of Management and Budget.

The status of actions to correct the instances of nonconformance identified in prior years' reports is contained in Attachment \_\_\_\_\_.

Sincerely,

---

<sup>1/</sup> Alternate language for use when some systems are in conformance with the accounting principles and standards, and others are not.

(Number) of the accounting systems generally conform to the principles and standards developed by the Comptroller General and implemented through OMB Circular A-127.

In addition, (number) accounting systems do not conform to those principles and standards. The most important areas of nonconformance are:

(List of material instances of nonconformance)

A list of the accounting systems annotated to indicate conformance with appropriate principles and standards is contained in Attachment \_\_\_\_\_. Further details on nonconformance and our plan and schedule for corrective action are contained in Attachment \_\_\_\_\_.

SAMPLE REPORT OF ASSURANCE FROM  
COMPONENT SYSTEM MANAGER

NAME OF SYSTEM \_\_\_\_\_

REVIEW MADE FROM \_\_\_\_\_ TO \_\_\_\_\_

NATURE AND EXTENT OF REVIEW

Limited Review \_\_\_\_\_ Detailed Evaluation \_\_\_\_\_

Explanation of Review \_\_\_\_\_

Other Information Considered \_\_\_\_\_

OVERALL RESULTS OF REVIEW

CONFORMANCE WITH OBJECTIVES

Systems Operations \_\_\_\_\_

o Usefulness \_\_\_\_\_

o Timeliness \_\_\_\_\_

o Reliability and Completeness \_\_\_\_\_

o Comparability and Consistency \_\_\_\_\_

o Efficiency and Economy \_\_\_\_\_

Systems Integrity \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Support for Budgets \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Support for Management \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Full Financial Disclosure \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

CHANGES REQUIRED AND PLANNED CORRECTIVE ACTIONS \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

The information presented above was obtained from a review made in accordance with the OMB Guidelines for Evaluating Financial Management/Accounting Systems. The results of the review described above indicate that the system generally (conforms) (does not conform) with the objectives detailed in OMB's Financial Management and Accounting Objectives.

SYSTEM MANAGER

Signature: \_\_\_\_\_ Date: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Notes:

- (1) Within the appropriate category, under the "Conformance with Objectives" section, indicate each instance of significant nonconformance with the objectives set forth in Circular A-127 and detailed in Financial Management and Accounting Objectives. Indicate with an asterisk (\*) those instances that are not in conformance with appropriate accounting principles and standards.
- (2) If insufficient space is provided for the answers, complete them on attached pages.

Appendix E

SAMPLE ASSURANCE LETTER TO THE AGENCY HEAD

FROM THE INSPECTOR GENERAL OR EQUIVALENT

Dear (agency head):

We have made a limited review to determine whether this year's evaluation of accounting systems, required by Section 4 of the Financial Integrity Act, was carried out in a reasonable and prudent manner. The evaluation was to have been made in accordance with the OMB Guidelines for Evaluating Financial Management/Accounting Systems. During this limited review, nothing came to our attention that would indicate that the evaluation did not comply with the guidelines.

(SIGNATURE)



(Name of Agency)  
 Format for Financial Management System Plan  
 Planning Period: \_\_\_\_\_ to \_\_\_\_\_  
 As of \_\_\_\_\_  
 (\$ in Thousands)

Appendix F

I. Components of Financial Management System with Annual Obligation and Outlay Estimates <sup>1/</sup>

Agency Financial Systems	Annual Obligation Estimates						Annual Outlay Estimates					
	Current Year	Budget Year	Succeeding Years				Current Year	Budget Year	Succeeding Years			
			1	2	3	4			1	2	3	4

- 1.
- 2.
- 3.
- 4.
- 5.

II. Systems (or Interfaces) Not in Conformance With Circular A-127 and the Principal Nonconforming Characteristics

<u>System (or Interfaces)</u>	<u>Nonconforming Characteristics</u>
-------------------------------	--------------------------------------

1.
  - a.
  - b.
  - c.
- 2.

III. Improvements Required to Achieve Circular A-127 Policies and Objectives; Obligation and Outlay Estimates; Milestones and Anticipated Benefits

Improvement Project Title <sup>2/</sup>	Project Description	Relationship to Overall Financial Management System	Annual Estimates <sup>3/</sup>		Milestone		Anticipated Bene- fits Related to Policy and Object- ives in Cir. A-127
			Year	Obligations	Outlays	Actions	Dates

1.
 

Current Year	
Budget Year	Start
Year #1	
Year #2	
Year #3	
Year #4	
- 2.

Footnotes

- 1/ This should include all expenditures (including salaries and benefits as well as capital expenditures) which are necessary or directly incidental to the operation of the system.
- 2/ In priority order, to achievement of Circular A-127 policies and objectives.
- 3/ This should include all expenditures (including salaries, benefits, consultant, hardware, software, system design, etc.) which are necessary or directly incidental to implementing the system improvement project.

NOTE: The improvement projects and data provided herein should be compatible with the information technology plan (Circular A-11, Budget Exhibits 43A and 43B), and if such projects pertain to accounting systems, their plans and schedules for corrective action should be included in the agency's Section 4, Financial Integrity Act report.

Appendix G

SAMPLE ACCOUNTING SYSTEM LETTER

Dear Mr. President:

Pursuant to Section 4 of the Federal Managers Financial Integrity Act, we have reviewed our accounting systems in use during fiscal year \_\_\_\_\_. The review was made in accordance with the Guidelines for Evaluating Financial Management/Accounting Systems issued by the Office of Management and Budget, and based on the principles and standards developed by the Comptroller General and implemented through OMB Circular A-127.

Since the review process is a continuous one, we have not completed detailed evaluations of all systems during this past year. We have, however, made at least a limited review of each system. Furthermore, we plan to make a detailed evaluation of each of the systems at least once every three years. The completed evaluations rely on tests of transactions and there is no assurance that the systems operate at all times in accordance with the test results.

The results of the review described above, approvals already provided by the General Accounting Office for certain of our accounting systems, assurances given by agency officials, and other information provided indicate that our accounting systems, taken as a whole, generally conform to the principles and standards, developed by the Comptroller General and implemented through Circular A-127, except as follows:<sup>1</sup>/

(List of material instances of nonconformance, if any)

A list of the accounting systems is contained in Attachment \_\_\_\_\_. Further details on material instances of nonconformance, together with a plan and schedule for corrective action are contained in Attachment \_\_\_\_\_.

The status of actions taken to correct the instances of nonconformance identified in prior years' reports is contained in Attachment \_\_\_\_\_.

In general we believe our accounting systems assure accountability over the resources entrusted to our care.

Sincerely,

1/ Alternate language for use when some systems are in conformance with the accounting principles and standards, and others are not.

(Number) of the accounting systems generally conform to the principles and standards developed by the Comptroller General and implemented through OMB Circular A-127.

In addition, (number) accounting systems do not conform to those principles and standards. The most important areas of nonconformance are:

(List of material instances of nonconformance)

A list of the accounting systems annotated to indicate conformance with appropriate principles and standards is contained in Attachment \_\_\_\_\_. Further details on nonconformance and our plan and schedule for corrective action are contained in Attachment \_\_\_\_\_.

Appendix H

GUIDANCE ON TESTING SYSTEMS

To determine whether a financial system conforms to appropriate principles and standards, it is necessary to review and test the system in operation. Although agency personnel may have extensive system knowledge, systems may operate differently than they believe. Therefore, testing should be done on critical aspects of the system, and may include:

- interviewing persons who operate the system,
- observing operating procedures,
- examining system documentation,
- applying procedures to live transactions and comparing results,
- direct testing of computer-based systems by use of simulated transactions, and
- reviewing error reports and evaluating error followup procedures.

Tests should be designed to disclose whether valid transactions are processed properly, and whether the system rejects invalid transactions. The tests should cover the entire transaction, from initial authorization through processing, posting to the accounts, and reporting. Accordingly, manual as well as automated operations should be included. In developing test plans, consideration should be given to the results of any prior system testing.

# EXECUTIVE SECRETARIAT

## ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA		X		
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt		X		
13	D/Pers				
14	D/OLL				
15	D/PAO				
16	SA/IA				
17	AO/DCI				
18	C/IPD/OIS				
19	NIO				
20	D/Finance		X		
21					
22					

SUSPENSE \_\_\_\_\_ Date \_\_\_\_\_

Remarks

Executive Secretary

4 May 85

Date



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

Executive Registry

85- 1810

April 29, 1985

M-85-15

## MEMORANDUM FOR THE HEADS OF DEPARTMENTS AND AGENCIES

SUBJECT: Financial Management Systems

This is to clarify certain aspects of OMB Circular A-127, "Financial Management Systems," and the recent revision of the GAO Policy and Procedures Manual, Title 2--Accounting. The clarification is based on extensive discussions with GAO.

First, the revision of Title 2 does not impose new reporting burdens on departments and agencies. The financial reporting referred to in Title 2 is, in fact, the Treasury reporting system. Agencies should continue to report in the manner prescribed by Treasury.

Second, Title 2 is intended to be an evolutionary document, and should not be used as a basis for wholesale revision of accounting systems. Rather, any systems revisions should be based on long range plans required under Circular A-127, considering all the systems objectives outlined in the Circular, including those based on Title 2 guidance. Both Circular A-127 and Title 2 call for agencies to establish and maintain single, integrated financial management systems. Both say that budgetary and financial reports should be prepared from those overall systems.

Third, Title 2 recognizes that there are instances where there is no significant difference between obligation and outlay accounting and accrual accounting. In these instances, only obligation and outlay accounting need be done by the agency.

Finally, two major areas of question in application of Title 2 have been identified--liabilities based on actuarial calculations and, to a lesser degree, entitlement accounting. Because of the complexity of programs covered under these two standards, the application of Title 2 to them must be based on an evaluation of the specific attributes of the individual program. Title 2 indicates that programs administered by the Social Security Administration will not be affected by either standard, and OMB will work with other agencies on applicability to their programs.

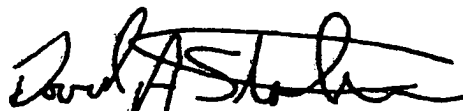
DCI  
EXEC  
REG

1-289



Additional work also will be done to identify other areas that require further guidance, such as accounts payable based on constructive delivery, treatment of physical and other resources, etc. An interagency group has been assembled for this purpose, under the leadership of the President's Council on Management Improvement to work with OMB and GAO to develop this guidance.

Evaluations made under Section 4 of the Financial Integrity Act will be based on guidelines to be issued shortly by OMB that will include guidance provided in Title 2.

A handwritten signature in black ink, appearing to read "David A. Stockman". The signature is stylized with a large, sweeping "D" and "S".

David A. Stockman  
Director